South Africa's GEAR:

Using a 'revised dependency theory' to asses South Africa's situation

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As South Africa attempts to negotiate the post-apartheid era, the new government must squarely face the legacy of socio-economic inequality and the crippled economy that it has inherited. Two crucial objectives which the new democracy is committed to-- lessening the gap between the rich and the poor and achieving sustainable economic growth-- will rely on the particular path to development that the government selects, and the specific policies implemented. In June of 1996 the ANC led government unveiled its macroeconomic strategy to reach this end: Growth, Employment and Redistribution, or GEAR (Marais, 1998:61). This paper will critically examine GEAR, and establish how framing this analysis within a theoretical discourse illuminates several critical danger areas for South Africa in its attempt to achieve social and economic progress with GEAR as its macroeconomic strategy.

This paper will start by exploring the current orthodoxy in developmental economics, and discussing how we have arrived at the present paradigm. I will then present the ideology and specific policies of South Africa's approach, dissecting GEAR, and establish that GEAR is consistent with the current orthodoxy. After that I will establish the need for a critique of current orthodoxy based on a 'revised' dependency theory, and will present the parameters of this critique. Finally, I will use this 'revised' dependency theory as a lens through which to view GEAR, and establish three critical danger zones for South Africa in its pursuit of economic and social progress.

I begin by briefly outlining the process by which we have arrived at the current economic orthodoxy and by establishing and discussing the basic tenets of this paradigm. The origins of

today's economic policies find their root in the modernization theory, which was the dominant paradigm of development during the 1960s. Generally, the modernization theory relied on the premiss that 'tradition', in all its many forms- cultural, economic, political, etc.,- was the primary reason why the third world had not developed on par with the western industrialized countries (Smith, 1996:64). Within this broad ideology, it was understood that the ultimate goal of development in the third world would be the attainment of a, "condition corresponding to the industrial capitalist societies of the West,"-- modernization (Smith, 1996:64). The gradual removal of traditional societies' economic and political systems, as well as their cultural institutions and values, and replacing them with modern ones was how modernization would be achieved (Smith, 1996:64). This ideology permeated development economics, and the belief of policy makers that this process of modernization could be speed up by employing specific policies of development dominated the policies of richer countries towards poorer ones throughout the 1960s (Smith, 1996:64).

While the actual approaches of development economics have differed greatly and changed dramatically since the 1960s, the fundamental ideology has held strong-- that the third world's 'backwardness' is responsible for its failure to achieve modernization on par with the West. Structuralism is the school of thought and policy which dominated development policy through the 1960s and the 1970s (Toye, 1994:22) Structuralism relied on the assumption that economies of third world countries are structurally different from those of the first world, and thus a different set of policies from the neo-Keynesianism being practiced in the industrialized world were required to bering about development in the third world (Toye, 1994:22) However, changes in the economies of the industrialized world during the 1970s precipitated a change in

development economics as well (Toye, 1994):19-23. The 'dualism axiom' underlying structuralism was challenged, and finally replaced as the dominant paradigm by 'monoeconomics' in the late 1970s (Toye, 1994:22). Monoeconomics held that economic policy could be universal, and that the application of, "standard economics' for policy analysis in the developing world" was appropriate (Toye, 1994:22). This universal application of economic policy ushered in an era of applying the ideology behind the economically conservative, market-based policies of the new leadership in the United States, the United Kingdom and West Germany to the developing world--and structural adjustment and the era of neo-liberalism was born (Toye, 1994):18-23.

Dominant development policy of the 1980s and the 1990s has been based on the universal application of the economic conservatism of neoliberalism. Neoliberalism calls for, "diminishing the role of the state in society and unleashing the supposedly (self-)corrective powers of unfettered market processes." (Marais, 1998:115) The economic agenda of neoliberalism is, "characterized by the primacy of macroeconomic stabilization" (Toye, 1994:23). Structural Adjustment Programs, the form which development policy has taken since the 1980s, are also grounded in the notion that the power of free-market policy can lead the third world to development. The SAP's of the 1980s contained, "two distinct components- stabilization and structural adjustment in the narrower sense of market liberalization and public sector reform." (Toye, 1994:22). The current neoliberal ideology, sometimes referred to as the Washington Consensus, is, "promulgated in the US but also espoused by multilateral institutions such as the World Bank and IMF" (Surin, 1998:7) This Washington Consensus insists, "that all economic advancement, including progress beyond the most abject poverty and immiseration, has necessarily to be market-driven." (Surin, 1998:7) That neoliberalism and structural adjustment

have become the prevailing paradigm in both the world economy and in the specific policies of development economics is not surprising, considering both the collapse of Soviet socialism and the influence of the institutions and governments which endorse this strain of thinking.

As a country which has recently made the transition to democracy and is now actively pursuing economic and social progress, South Africa is joining a global economic community in which development economics are dictated by neoliberalism. The macroeconomic policy which the South African government has adopted is called GEAR, Growth, Employment and Redistribution. The process by which the ANC government has arrived at this strategy for achieving development is beyond the scope of this paper, and was in fact the subject of my last essay for this class. However, some background is obviously necessary. To put GEAR in context, it was unveiled in June of 1996, coming on the heels of the first serious currency crises under the new government, where in February of 1996 the Rand crashed, falling by more than 25% (Adler & Webster, 1998). GEAR is the macroeconomic strategy by which the ANC led government proposes to meet its longer-term goal of lessening socio-economic inequality, an ideological goal which is expressed in government policy such as the Reconstruction and Development Plan (RDP) (CDE, 1997:6)

GEAR seeks to utilize neoliberal tools to stimulate economic growth, the creation of jobs, and ultimately facilitate social equality. The ideology behind GEAR is clearly based in neoliberalism--"GEAR is consistent with the present strong international consensus on the efficiency of the market system." (CDE, 1997:6) This belief in the efficacy of the market system within the predominant development paradigm is conveyed in GEAR's strategy for achieving economic growth in South Africa. GEAR proposes commitments to fiscal discipline and macroeconomic balance with which, "over a five-year period it aims to get the economic

fundamentals right in order to encourage private sector investment leading to job creation." (CDE, 1997:2)

A discussion of the detailed policies of GEAR and the projected results support the idea that GEAR is based in the neoliberalism which is the current development paradigm. GEAR has made projections as to the amount of growth that it can create over its five year life span. GEAR has estimated that its policies will lead to an increase in annual growth by an average of 4.2%, it will boost exports by an average 8.4% per annum, and ultimately create 1.35 new jobs by the year 2000 (Marais, 1998:161-2). According to Marais, the pillars of GEAR, and the overall methods by which the above projections are to be reached, fall in line with typical neoliberal methodology--"deficit reduction, keeping inflation in single digits, trade liberalization, privatization, tax cuts and holidays, [and] phasing out exchange controls." (Marais, 1998):171 In addition to the methods Marais highlights above, other, more specific methods of stimulating investment (and consequently growth) include, "slashing state spending to drive the budget deficit down to 3 per cent of the GDP by the year 2000...encouraging wage restraint by organized workers...[and] creating a more 'flexible' labour market, possibly by deregulating certain categories of unskilled work and exempting small businesses from aspects of the new labour regime..." (Marais, 1998:161-2) The actual policies by which GEAR proposes to stimulate growth illustrate that South Africa's path to development has embraced the predominant orthodoxy of neoliberalism.

The critical aspect of neoliberalism, and policies like GEAR which follow its prescription, is a heavy reliance on (primarily foreign) investment, and the implementation of liberalization in order to attract that investment. Marais contends that the current 'internationalizing' trend in the world economy, promoted by the IMF and the World Bank, which

constitute the common aspects of neoliberal policy--'liberalizing' trade relations by reducing tariffs and the removal of non-tariff protective barriers for domestic industry, as well as the removal of financial controls and facilitating and even guaranteeing the free flow of capital-- are done to make a country more attractive to foreign investment (Marais, 1998):124. Another example of the extent to which neoliberal policy prescription is geared towards attracting investment is the goal of reducing the fiscal deficit. The reduction of fiscal deficit is based on the general idea that state borrowing to finance deficit causes the state to compete for funds with the private sector, which is said to in turn, "reduce investor confidence, drive up interest rates and slow growth." (Marais, 1998:163)

As with neoliberalism itself, GEAR looks to foreign investment as the source of economic growth, and its policies are aimed at attracting investment. GEAR's economic objective is to implement policy which will attract investment. (CDE, 1997:2) Building a climate of investor confidence is the "key variable", and the success of GEAR will rely on increased private sector investment. (CDE, 1997:3) Terrence Moll, Senior Economist from the Economic Research Unit of Old Mutual believes that the, "economic logic behind GEAR makes a lot of sense. It entails the government doing the things investors like." (CDE, 1997:10) However, he acknowledges how heavily GEAR relies on investment, going so far as to call this heavy reliance a "gamble", and recognizing that the success of GEAR (as well as the possible failure) rely almost exclusively on the response of business investment (CDE, 1997):10. In more specific terms, the calculations which GEAR uses in its projections show, "import expenses...depressing the fiscus by -0,2 per cent, while state spending was scheduled to add a fiscal stimulus of only 0,5 per cent," therefore, "achieving the projected 4,2 per cent average annual growth would require a ...fiscal stimulus of 3,9 per cent (or 93 per cent of the total stimulus) from private

investment." (Marais, 1998:163) In the case of many neoliberal development policies, as with GEAR, the reliance on investment is in fact a heavy reliance on foreign investment, as is indicated by the methods prescribed by neoliberalism to attract investment. One specific example is the phasing out of foreign exchange controls, which is featured as part of GEAR's strategy. In South Africa, "foreign investors are to gain easier access to domestic credit, with wholly foreign-owned firms able to borrow up to 100 per cent of shareholder equity." (Marais, 1998:170) Trade liberalization, which is also a feature of GEAR, is another indication that for third world countries seeking to attract investment in a 'global economy', the real reliance is on the attraction of foreign investment. (Marais, 1998):124.

The continued disparity between the first and the third worlds- despite half a century of development policies, programs and efforts raises significant questions about orthodox development strategies. At the very least, a critical analysis of the orthodox approach to development is warranted. If the current orthodoxy of neoliberalism in development economics can trace its roots to the modernization theory of the 1960s, then perhaps an updated version of the dependency theory- which offered the largest criticism of modernization back in the 1960s- can be utilized to critically assess the current orthodoxy. The debate between the modernization and dependency theories which took place in the 1960s is too complex for me to relate in this paper. I would however like to reiterate the broader themes of the dependency theory, many of which are still valid. I would also like to approach a revision of the dependency theory based on the idea that the purpose and aim of the dependency theory has always been to understand the polarization between the industrialized and developing nations in terms of a larger critique of the mainstream development paradigm. Kenneth Surin maintains that the dependency paradigm has always aimed at providing an analysis of the "systemic international inequalities" which exist,

and, "to this end it has always been justified in existing, even if some of its formulations have been found to be insufficient or dated." (Surin, 1998: 3) One basic issue to come out of dependency theory which justifies application in analyzing the current orthodoxy is the core concern about the relative importance of external and internal variables in determining limits on capitalist development (Smith, 1996):166. In the current context, we must ask ourselves-- to what extent does the successful development of the third world, within the current neoliberal orthodoxy, depend on external (or first world) rather than internal action? Does the extent of dependency of the third world on the actions of the first create a world economic system in which the successful socio-economic development of the third world is virtually impossible? Surin presents what he terms a, 'reinvented' dependency paradigm where he uses the flow of capital to understand relationships of dependency, and where he claims that an "entrenched asymmetrical situation between high and low income countries" is the basis for the continued world polarization and the inability of the third world to successfully develop within the current neoliberal orthodoxy (Surin, 1998):15.

Exploring GEAR through a 'revised' dependency theory lens will allow us to establish the extent to which socio-economic progress in South Africa is constrained by its dependency on the industrialized countries, and allow us to draw conclusions about the validity of the 'revised' dependency theory's position that dependency of low-income countries on high-income countries indicates that within the existing dominant paradigm successful development is beyond the grasp of low-income countries. The first way in which to examine the experience in South Africa through the lens of dependency is by evaluating the progress of the GEAR program in achieving its goal of economic growth through investment thus far, and identify what this indicates about

the ability of GEAR to achieve its longer-range goal of social redistribution. The initial indicators of GEAR's performance are not promising. According to the Reserve Bank, the GDP growth rate dropped to -0.8% in the first quarter of 1997, down from 3.3% during the last quarter of 1996. (Marais, 1998:172) The projected job growth has not materialized, and in fact employment fell 1.3% in 1996 (Marais, 1998:172). The lack of significant growth in investment is the reason that GEAR is not living up to its promises thus far. However, the causes of the lack of significant investment are disputed. Some of GEAR's proponents argue that a cyclical decline in economic activity is the reason, "which is unfortunate for GEAR's objective of attracting investment." (CDE, 1997:2) Other supporters blame South African business for failing to invest domestically, and consequently damaging the image South Africa is putting into the global business community of being 'investor friendly' (Marais, 1998:124). Still other voices claim that the liberalization process is taking place to slowly, and needs to be sped up (CDE, 1997:6). But aside from the supporters of GEAR and the neoliberalism behind it, there are voices which offer a deeper more troubling explanation for the absence in substantial growth in investment. An argument which Hein Marais mounts, and finds considerable evidence to support, is that foreign direct investment (FDI) of the sort which GEAR attempts to attract is not lured by the sort of reforms in economic policy which GEAR is employing (Marais, 1998):126-7. Marais claims that, "international experience shows that foreign investment is more likely to flow to vibrant economies with strong internal demand, and which are integrated into economically dynamic regions." (Marais, 1998:126-7) Marais refutes the dominant belief (which GEAR policies rely on) that, "low wages and relatively high skills levels are the key determinants of FDI," claiming that a study of 54 developing countries indicated that those elements were the least influential criteria affecting FDI, and that rather the, "size of the domestic market, price/exchange rate

stability and political/institutional stability" were the most important factors (Marais, 1998: 126-7) Another criticism of the neoliberalist approach of placing success of development on the shoulders of foreign investment points to the highly selective flow of FDI, and argues that in countries not included in the select group of FDI recipients development approaches based on foreign investment are doomed to failure. World Bank figures show that 8 less-developed countries receive two-thirds of the world's FDI, while 50% of the 93 less-developed countries receive little or no FDI (Surin, 1998:13). Whether it is based on the current world investment climate as GEAR supporters suggest, on the larger fundamental problems such as the selective flow of FDI and Marais' claim that GEAR's policies are incapable of luring FDI, the fact remains that GEAR is not generating the significant increase in FDI which it projected, and consequently is not stimulating economic growth in South Africa. The prognosis for achieving the longer-term goal of socio-economic development is dim. This 'danger zone' for South Africa supports the 'revised' dependency theory's claim that because neoliberal development strategies (such as GEAR) hinge on FDI from the first world, developing countries remain locked into a relationship of inequality with industrialized nations. Essentially, the development of low-income countries-like South Africa- is determined by external factors (namely the actions of first world capital) within the current development paradigm.

The second way to examine the likelihood of development in South Africa through the revised dependency theory lens is by exploring what could happen in South Africa if GEAR were able to attract foreign investment. This is a hypothetical scenario, but I will draw on the patterns and form of investment currently taking place in South Africa on a small scale, and simply proceed as if these small levels of investment were closer to GEAR's 'successful' target levels of

investment. The bulk of foreign investment in South Africa since the adoption of GEAR has been in the form of portfolio investment (Marais, 1998:172). The trend in foreign investment in South Africa is towards investment in stocks and bonds (Marais, 1998:125). Net outflows of the apartheid-era were reversing by the end of 1994, and *Business Map* estimated a $4 billion increase of inflow between 1994 and 1997 (Marais, 1998:125). However, Alan Hirsch of the Department of Trade and Industry said that the growth was largely due to, "investments through the stock exchange" and that FDI, "defined as more than 50 per cent ownership remains relatively small" (Marais, 1998:125). The trend that South Africa is experiencing is not unusual. It is part of a larger growth of extraterritorial financial markets and institutions since the 1980s, resulting in the "tripling in the overall volume of transnational capital flows between 1980 and 1992" (Surin, 1998:4) The impact on developing countries has been particularly overwhelming, in 1995, "capital from bonds or fixed income securities amounted to $800 billion in developing countries...about two-thirds of their equity capitalization." (Surin, 1998:4) The self-interested nature of finance capital, as well as the neoliberal policy of facilitating rapid capital mobility, both lead to the extremely volatile nature of finance capital (Surin, 1998:27) There is also a notable power imbalance between industrialized and developing countries in terms of financial capital, as Surin points out, "the combined pool of funds managed by financial institutions in the high-income countries runs to around $10-15 trillion, whereas the total market capitalization of all lower-income countries (referred to by World Bank officials as 'emerging market' countries) is in the order of $1 trillion." (Surin, 1998):4. As Surin further argues, "the effects of an imbalance of this kind during a rapid movement episode are potentially catastrophic for a lower-income country, whose stock-exchange is likely to be dominated by foreign-owned portfolios" (Surin, 1998):4. The 'revised' dependency theory argues that the overwhelming power imbalance

between high and low income countries, as well as open-market neoliberal policies, leave lower income countries, "more vulnerable to external shocks and to the onset of financial crises such as the one now occurring in Southeast Asia" (Surin, 1998:15). Consequently, even when seeming to achieve 'success' within the orthodox neoliberal paradigm, the fate of developing economies are vulnerable to and dependant on the actions of the first world. The current Southeast Asian crisis is evidence of this, and the initial indications that if foreign investment were to increase significantly enough to be touted 'successful' the nature of those investments would place the South African economy in a vulnerable position, implying that the sustained development of South Africa within the predominant paradigm would be improbable. This second 'danger zone' for South Africa, although hypothetical for the time being, supports the broad claim of the revised dependency theory that the current dominant paradigm does not allow for the long-term socio-economic development of third world countries.

The third element of the analysis of GEAR is based in criticism of neoliberal ideology as a tool for socio-economic redistribution within a national economy. It focuses not on the relationship between a neoliberal economy and other nations or the global economy, but rather on the plausibility that reduced government spending and wealth generated by free market principals will promote social progress. It diverges from analysis centered in the revised dependency theory because it does not discuss the relationship between the developed and developing worlds. However, it does run parallel to the dependency theory because it is essentially a critique of the dominant orthodoxy's ability to achieve socio-economic development. Marais argues that the 'trickle-down' approach to redistribution which neoliberalism presents as its method of achieving socio-economic progress is ineffective, arguing that, "there exists no example internationally where neo-liberal adjustments of the sort championed by GEAR have produced a socially

progressive outcome" (Marais, 1998:171) He further refutes the assumption that economic growth results in redistribution, pointing out, "as the ILO has reminded, wealth does not necessarily reduce poverty" (Marais, 1998:171). But perhaps his most persuasive evidence is pointing out the failure of neoliberal policy to promote socio-economic equality in the country which is arguably the most ardent advocate of neoliberalism-- the United States, where, Marais says, "what neo-liberalism did achieve was a massive redistribution of wealth in favour of the rich...between 1977 and 1989, the incomes of the wealthiest 1 per cent of Americans rocketed by 104 per cent, while that of the poorest 5 per cent dropped by almost 10 per cent, increasing the number poor Americans from 22 million to 32 million" (Marais, 1998:115). This third 'danger zone' for South Africa presents the worrisome claim that even if neoliberalism is able to generate wealth through economic growth, the failure of neoliberalism to effectively redistribute that wealth may mean that the social inequalities of the apartheid era will persist. This criticism of neoliberalism as a strategy for redistribution supplements the revised dependency theory by postulating that the predominant orthodox paradigm which is employed as a method to achieve socio-economic development fails to achieve redistribution, and will consequently prevent the third world from achieving development. That neoliberalism is a economic strategy born in the industrialized world and adopted by the developing world via the orthodox monoeconomics premiss indicates how the theoretical dependence of the third world on the industrialized West prevents the development of the third world. That is, the developing world's reliance on the first world for economic theory and development strategy (stemming, arguably, from the need to follow predominant orthodoxy in order to secure World Bank/IMF assistance), is another obstacle to development for the third world.

The exploration of South Africa's approach for achieving socio-economic development,

GEAR, has allowed us to disect the current neoliberal orthodoxy in development economics. Using a theoretical framework to disscuss GEAR has allowed us to create and employ a revised dependency theory to the analysis of current orthodoxy. The use of this revised dependency theory has highlighted three 'danger zones' for South Africa and GEAR: (1) the failure of GEAR to stimulate investment and thus preventing socio-economic, (2) the indications that even acieving investment would leave South Africa vulnerable and unable to sustain development, and (3) that neoliberalism and GEAR aren't capable of redistributing wealth even if it is generated. These three danger zones lend vast credibility to the revised dependency theory's claim that within the current orthodox paradigm the third world is unlikely to achieve socio-economic development.

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